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In The

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF OF *AMICI CURIAE* PROFESSOR ROBIN FELDMAN, ET AL., IN SUPPORT OF PETITIONER

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INTEREST OF THE *AMICI CURIAE*[1]

Amicus curiae Professor Robin Feldman is an expert in intellectual property law, particularly issues involving the sciences, intellectual property monetization, and the intersection of intellectual property and antitrust. She is the Harry & Lillian Hastings Professor of Law at the University of California Hastings College of the Law and Director of the UC Hastings Institute for Innovation Law. She has received multiple awards for teaching and scholarship, and has published two books, *Rethinking Patent Law* (Harvard 2012) and *The Role of Science in Law* (Oxford 2009). Professor Feldman's third book, *Drug Wars: How Pharmaceutical Companies Raise Prices and Keep Generics Off the Market* (Cambridge) is forthcoming in 2017. Professor Feldman has published numerous articles in law reviews, the New England Journal of Medicine, and the American Economic Review. She has testified frequently before Congress on intellectual property issues and has provided testimony and commentary for the Federal Trade Commission, the Department of Justice, the United States Patent and Trademark Office, and the National Academy of Sciences. Her empirical work on patent trolling was cited in the 2013 White House Report on Patent Assertion, and various works have been cited by other White House publications, the

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[1] Counsel for all parties have consented to the filing of this brief. No counsel for any party had any role in authoring this brief, and no person other than the named *amici* made any monetary contribution to the preparation of this brief. *See* Rule 37.6.

nonpartisan Congressional Research Service, and various federal agencies.[2] As Director of the Institute for Innovation Law, Professor Feldman also runs a client-based education program, the Startup Legal Garage.

Amicus curiae Betty Chang Rowe is Senior Research Fellow at the University of California Hastings College of the Law, Institute for Innovation Law. She has over 15 years of experience in complex commercial litigation as an attorney and partner in private practice.

Amici curiae Professor Feldman and Senior Research Fellow Betty Chang Rowe have a strong interest in maintaining the integrity of patent law and the doctrine of patent exhaustion. *Amici* submit this brief to offer for this Court's consideration a detailed view of the Federal Circuit's efforts to reformulate patent exhaustion in ways that are directly in conflict with this Court's precedent, that stray from the underlying

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[2] Recent examples include FED. TRADE COMM'N, PATENT ASSERTION ENTITY ACTIVITY: AN FTC STUDY, at 2, 22-27, 31-32, 54, 138 (2016); CONG. RES. SERV., REPORT R44643, THE HATCH-WAXMAN ACT: A PRIMER, at n.87 (2016), https://www.everycrsreport.com/files/20160928_R44643_1c2fafad2efe96d4c0fe44f2f23308dcfc059f83.pdf; THE PATENT LITIGATION LANDSCAPE: RECENT RESEARCH AND DEVELOPMENTS, COUNCIL OF ECONOMIC ADVISER ISSUE BRIEF, at 4 (2016), https://www.whitehouse.gov/sites/default/files/page/files/201603_patent_litigation_issue_brief_cea.pdf; EXEC. OFF. OF THE PRESIDENT, PATENT ASSERTION AND U.S. INNOVATION, at 5 (2013), https://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf.

purposes and objectives of patent law, and that hamper commerce and the economy.

SUMMARY OF ARGUMENT

For twenty-five years, the Federal Circuit has waged war on this Court's doctrine of patent exhaustion. With each battle, the Circuit has tried to introduce concepts that would have the effect of nullifying the doctrine, in a manner that is tempting to characterize as reversal from below. The Federal Circuit's *en banc* opinion in this case is the latest front.

The well-established doctrine of patent exhaustion limits a patent holder's right to control what others can do with an article embodying an invention, once that article has been sold. *Bowman v. Monsanto Co.*, 133 S. Ct. 1761 (2013). Under the doctrine, "[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 638 (2008). Underlying the doctrine is a recognition that there is a point at which "the purpose of the patent law is fulfilled with respect to any particular article" and that "once that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold." *United States v. Univis Lens Co.*, 316 U.S. 24, 251 (1942). The exhaustion doctrine is also known as the "first-sale doctrine," because it limits the

patent holder's ability to place restrictions beyond the initial sale of an item. *See Intel Corp. v. ULSI Sys. Tech., Inc.*, 995 F.2d 1566, 1568 (Fed. Cir. 1993), *cert. denied*, 510 U.S. 1092 (1994).

Initially articulated by the Supreme Court in 1852, the exhaustion doctrine has been consistently applied by this Court for 165 years. Most recently, this Court reaffirmed the doctrine in *Monsanto* (2013), *Quanta* (2008), and *Univis* (1942). Rather than hewing to this Court's century-old doctrine, the Federal Circuit's 53-page *en banc* decision carefully lectures this Court on why the Court improperly interpreted Congressional legislation and why there is no basis for the Court's doctrine. In so doing, as the dissent acknowledged, the Federal Circuit has "exceed[ed] [its] role as a subordinate court by declining to follow the explicit domestic exhaustion rule announced by the Supreme Court." *Lexmark Int'l Inc. v. Impression Products, Inc.*, 816 F.3d 721, 733-34 (Fed. Cir. 2016) (Dyk, J., dissenting). *Amici* write to highlight the full sweep of the Federal Circuit cases that culminate in *Lexmark,* in the hope that this Court will repudiate the Federal Circuit's line of logic, in its entirety.

The Federal Circuit would eviscerate the exhaustion doctrine, along with its limit on the power of the patent holder. The decision allows a patent holder to impose restrictions against all downstream users of an article, after the article's initial release into the stream of commerce, simply by declaring those restrictions and specifying that the transaction is not a sale. In effect, the Federal Circuit concludes that a sale is not a

sale, and the exhaustion doctrine does not apply, as long as the patent holder says so. In so doing, the Federal Circuit decision not only defies logic, it also defies this Court's reminder that, "[i]n applying [the exhaustion] rule, this Court has quite consistently refused to allow the form into which the parties chose to cast the transaction to govern." *See United States v. Masonite Corp.*, 316 U.S. 265, 278 (1942).

The Federal Circuit opinion also attempts to cabin the discussion in this case by suggesting that the parties below did not address the limits of the patent power. The exhaustion doctrine, however, is focused entirely on the limits of the patent power. *See Quanta*, 553 U.S. at 617 (noting that, "[f]or over 150 years, this Court has applied the doctrine of patent exhaustion to *limit the patent rights* that survive the initial authorized sale of a patented item" (emphasis added)). It would be impossible to discuss exhaustion without discussing the limits of the patent power. Attempting to frame the case in this fashion denudes this Court's 165 years of exhaustion doctrine, attempting to set it adrift without any moorings in history or logic.

The Federal Circuit tries mightily to support its approach by noting that this Court uses the word "authorized" in describing patent exhaustion. *See Lexmark*, 816 F.3d at 739 (citing language in *Quanta*, 553 U.S. at 625 that, "the initial authorized sale of a patented item terminates all patent rights to that item"). The Federal Circuit interprets the language in a circular manner, finding that when downstream users act "contrary to the . . . limits on the authority

conferred at the time of the original sale, [their actions] remain[s] unauthorized." *See Lexmark*, 816 F.3d at 726; *see also id.* at 739-42 (engaging in extensive discussion of the word "authorized").

The Federal Circuit's interpretation places far more weight on the slender word "authorized" than it could ever bear. Historically, the term "authorized sales" entered the exhaustion definition to clarify that a patent holder need not do its own manufacturing, and thus, exhaustion applies only after those "authorized" to do the manufacturing have sold the item. *See General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175 (1938). After all, the patent system does not mandate vertical integration, which would require that one company invent, manufacture, and sell, all on its own. In modern commerce, the word "authorized" takes on particular force given the problem of rampant knockoff goods. Quite simply, a patent holder should not be judged to have exhausted its patent rights when goods enter the stream of commerce without anyone ever receiving permission from the patent holder. None of this, however, requires the elaborate twists and turns to which the Federal Circuit resorts in its latest effort to avoid the exhaustion doctrine.

Patents have become a pervasive presence in society, seeping into every nook and cranny of American life.[3] In this context, applying the proper doctrines to patent law is of particular importance for ensuring

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[3] Robin Feldman, *Intellectual Property Wrongs*, 18 STAN. J.L. BUS. & FIN. 250, 252 (2013).

that patent law remains faithful to its design. The Federal Circuit decision in the current case ignores that essential design and should be reversed. As this Court has consistently held, for well over a century and as recently as 2008, the initial sale of a patented item "terminates all patent rights in that item." *Quanta*, 553 U.S. at 625. That termination occurs regardless of the restrictions, conditions, or other limitations a patent holder may attempt to impose on the first sale.

ARGUMENT

I. THE LONGSTANDING DOCTRINE OF PATENT EXHAUSTION PROPERLY LIMITS PATENT RIGHTS AFTER THE PATENTED ITEM HAS BEEN RELEASED INTO THE CHANNELS OF TRADE

A. The Patent Exhaustion Doctrine Is Well Entrenched in Supreme Court Jurisprudence

The doctrine of patent exhaustion is a fundamental tenet of patent law, well-ingrained in Supreme Court jurisprudence for over 150 years. The doctrine holds that a patent holder may not control a patented item once it has been released into the "channels of trade." *Motion Pictures Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917). In more simplistic terms, once an item embodying an invention is sold, the patent holder must relinquish control of that item. This Court first articulated the doctrine in *Bloomer v.*

McQuewan, 55 U.S. (14 How.) 539 (1852), explaining that, "when the machine passes to the hands of the purchaser, it is no longer within the limits of the [patent] monopoly. It passes outside of it, and is no longer under the protection of the act of Congress." *Id.* at 549.

Since *McQuewan*, this Court has repeatedly and consistently applied the exhaustion doctrine to bar a patent holder from reaching beyond the first sale of a patented item to control downstream sales or uses.[4] Recently, in *Quanta* (2008), this Court considered whether the doctrine applied to method patents, specifically, components of a patented computer system that must be combined with additional components in order to practice the patented methods. "For over 150 years," the opinion began, "this Court has applied the doctrine of patent exhaustion to limit the patent rights

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[4] *See, e.g., Adams v. Burke*, 84 U.S. 453, 455 (1873) ("where a person ha[s] purchased a patented machine of the patentee or his assignee, this purchase carrie[s] with it the right to the use of that machine so long as it [is] capable of use"; affirming the dismissal of a patent holder's suit alleging that a licensee had violated post-sale territorial restrictions on the use of patented coffin lids); *Boston Store of Chicago v. American Graphophone Co.*, 246 U.S. 8, 25 (1918) ("by virtue of the patent law one who had sold a patented machine and received the price and had thus placed the machine so sold beyond the confines of the patent law, could not by qualifying restrictions as to use keep under the patent monopoly a subject to which the monopoly no longer applied."); *United States v. Univis Lens Co.*, 316 U.S. 241, 249 (1942) (exhaustion was triggered by the sale of eyeglass lens blanks that "embodie[d] essential features of [the] patented invention").

The one aberration, *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912), was explicitly overruled five years later in *Motion Pictures*. *See Motion Pictures*, 243 U.S. at 518.

that survive the initial authorized sale of a patented item." *Id.* at 621. In a unanimous reversal of the Federal Circuit's opinion, this Court re-affirmed and applied its "longstanding doctrine" to prevent the patentee from further asserting any patent rights with respect to patents substantially embodied by those products. This Court unequivocally held, "[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." *Id.* at 638.

A mere four years ago, this Court again reaffirmed that "[t]he doctrine of patent exhaustion limits a patentee's right to control what others can do with an article embodying or containing an invention." *Bowman v. Monsanto Co.*, 133 S. Ct. 1761, 1766 (2013). In other words, the doctrine "delimit[s] the scope of the patent grant." *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 497 (1964).

B. The Patent Exhaustion Doctrine Serves Important Public Policy Objectives

The exhaustion doctrine, in limiting a patent holder's rights under patent law, serves several important public policy objectives. With roots reaching back to the law related to tangible goods, the doctrine flows from the notion that if one buys an item, one should be free to use it in any way. At the doctrine's inception back in the mid-1800s, the Court explained that a purchaser may use a patented item "in the

ordinary pursuits of life" (*McQuewan*, 55 U.S. at 549) and that "where a person had purchased a patented machine of the patentee or his assignee, this purchase carried with it the right to the use of that machine so long as it was capable of use." *Adams*, 84 U.S. at 455. In other words, if I buy a hammer, for example, I should be able to hit any nail I choose or sell it to anyone I want.[5] The doctrine is also grounded in the common law principle of the free alienability of property and an appreciation of the benefits that accrue to commerce from such freedom.[6] Finally, a key economic rationale is the fact that endless restrictions on downstream uses of property create bottlenecks in the flow of commerce, along with the resulting transaction costs and economic waste. The farther a patent holder can reach in the life of a patented object, the more the stickiness and friction of each interaction can gum up the system. The doctrine of patent exhaustion, with its limitations on how many iterations the patent holder can reach, represents a cap on the amount of friction that one patent holder can create.[7]

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[5] ROBIN FELDMAN, RETHINKING PATENT LAW at 143 (Harvard 2012).

[6] *Id.*; *see also Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 500-01 (1917) (describing a patentee's restrictions as "restraints upon [the property's] further alienation, such as have been hateful to the law from Lord Coke's day to ours, because obnoxious to the public interest.").

[7] FELDMAN, RETHINKING PATENT LAW at 146; *see also* Brief for the United States as Amicus Curiae Supporting Petitioners, *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008),

II. THE FEDERAL CIRCUIT ENGAGES IN REVERSAL FROM BELOW ON THE LONGSTANDING DOCTRINE OF EXHAUSTION

A. *Mallinckrodt:* The First Front in the Federal Circuit's Offense Against the Exhaustion Doctrine

The Federal Circuit's assault on this Court's century-old exhaustion doctrine began with *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), a patent infringement case that concerned a single-use only restriction on a device. The purchaser defended against the patent claim by arguing that the patent holder had exhausted its rights by the sale of the device and that attempts to continue to assert those patent rights constituted misuse of the patent.[8] Agreeing with the exhaustion analysis, the District Court held that the transaction exhausted the patent holder's right to control a purchaser's use of the device. *Mallinckrodt, Inc. v. Medipart, Inc.*, 1990 WL 19535, *9 (N.D. Ill. 1990).

The Federal Circuit reversed, in an opinion written by Judge Newman. Referencing the District Court's description of the law as requiring that "no

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2007 WL 3353102 at *27-28 (identifying transactional inefficiencies in the absence of the exhaustion doctrine).

[8] For a detailed description and history of the doctrine of patent misuse, *see* FELDMAN, RETHINKING PATENT LAW at 137-42, 147-48; Robin Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399 (2003) (hereinafter "*Insufficiency*").

conditions be imposed on patented goods after their sale," the Federal Circuit responded that "the court erred in its analysis of the law for not all restrictions on the use of patented goods are unenforceable." *See Mallinckrodt*, 976 F.2d. at 703.

To reach its holding, the Federal Circuit in *Mallinckrodt* reinterpreted this Court's precedents related to exhaustion and concluded that those cases should not be read to forbid post-sale restrictions on a patented article. Specifically, Judge Newman concluded that, "[v]iewing the entire group of these early cases, [they] do not stand for the proposition that no restriction or condition may be placed upon the sale of a patented article." *Id.* at 708. Rather, according to *Mallinckrodt*, this Court's precedents should be understood to forbid only restrictions past the first sale *if* those restrictions violate other areas of law, such as antitrust. *See id.* Following this reinterpretation, *Mallinckrodt* declared that, "[t]he appropriate criterion is whether Mallinckrodt's restriction is reasonably within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having *an anticompetitive effect not justifiable under the rule of reason.*"[9] *Id.* (emphasis added). No supporting authority was cited.

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[9] In that case, the Federal Circuit found that the post-sale use restriction on the sale of a medical device was enforceable through a patent infringement suit because "the restriction here at issue does not per se violate . . . the antitrust law." *Mallinckrodt*, 976 F.2d at 701.

In one sentence, the Federal Circuit in *Mallinckrodt* collapsed several areas of patent law into antitrust doctrine and introduced antitrust style analysis across a range of patent doctrines. This convoluted and confused opinion has echoed throughout patent law since.

The Federal Circuit's move in *Mallinckrodt* is reminiscent of its attempt to import antitrust doctrines into another area of patent law – the award of attorney's fees under the Patent Act – which this Court recently rebuffed. Specifically, in *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005), the Federal Circuit added the requirement that for a court to award fees, the suit must be both objectively and subjectively baseless. *Id.* at 1381-82. In creating the requirement, the Federal Circuit cited this Court's holding in the antitrust case, *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, 508 U.S. 49 (1993) (hereinafter, "*PRE*"). In a unanimous opinion, this Court rejected the Federal Circuit's logic, holding that the Circuit had "imported the *PRE* standard" when the standard has "no roots in the text of [the relevant section of the Patent Act] and it makes little sense" in that context. *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749, 1757 (2014) (citation omitted).[10]

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[10] The "*PRE* standard" refers to this Court's holding that to qualify for the "sham litigation" exception to antitrust immunity, a "lawsuit must be objectively baseless" and must "concea[l] 'an attempt to interfere directly with the business relationships of a competitor. . . .'" *PRE*, 508 U.S. at 60-61.

Similarly, *Mallinckrodt*'s injection of antitrust tests and standards into the exhaustion doctrine finds no roots in patent law either. No precedent from this Court suggests that exhaustion turns on antitrust concerns. The Federal Circuit simply chose to strike out on its own in *Mallinckrodt*, in an attempt to radically alter the exhaustion doctrine. The Federal Circuit, however, was not at liberty to change this Court's exhaustion doctrine from below.

Worse still was the fact that Judge Newman's decision cited the already discredited Federal Circuit opinion in *Windsurfing Int'l v. AMF, Inc.*, 782 F.2d 995 (Fed. Cir. 1986), *cert. denied*, 477 U.S. 905 (1986). *See Mallinckrodt,* 976 F.2d at 706. In *Windsurfing,* Judge Markey of the Federal Circuit made an aborted attempt to import antitrust law into patent misuse, adding the term "with anticompetitive effect." *See* 782 F.2d at 1001.[11] Within nine months, Judge Markey retreated from *Windsurfing* and held that patent misuse did *not* require antitrust-type findings, acknowledging that such changes are left to the province of Congress and the Supreme Court. *See Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661, 665 n.5 (Fed. Cir. 1986) ("We are bound . . . to adhere to existing Supreme Court guidance in the area until otherwise directed by Congress

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[11] While Judge Markey cited *Blonder-Tongue Labs., Inc. v. Univ. of Illinois Foundation*, 402 U.S. 313 (1971) as support for the "anticompetitive effects" requirement, that opinion does not contain that language.

or by the Supreme Court").[12] Far from adhering to this Court's guidance, however, Judge Newman simply took up the banner in *Mallinckrodt*, attempting to eliminate exhaustion and all other aspects of patent misuse in one fell swoop.[13]

B. Post-*Mallinckrodt*: The Supreme Court Unequivocally Reaffirms the Exhaustion Doctrine

Point by point, this Court has reaffirmed the doctrines that *Mallinckrodt* sought to eliminate. In *Kimble v. Marvel Entertainment, LLC*, 135 S. Ct. 2401 (2015), this Court reaffirmed the patent misuse doctrine, finding that a patent holder cannot charge royalties after the expiration of its patent term. In *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), this Court reversed the Federal Circuit and applied the first-sale doctrine to copies of copyrighted

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[12] In 1988, Congress considered a bill that would have prohibited a finding of patent misuse unless the practices "violate the antitrust laws." The language was approved by the Senate, but in the waning days of the 100th Congress, the language was replaced. The final language relates only to tying cases and prohibits a finding of patent misuse unless the patent holder has market power. 35 U.S.C. § 271(d)(5) (2000). For a detailed description of this history, *see* FELDMAN, RETHINKING PATENT LAW at 141; Feldman, *Insufficiency* at 419-21. For a detailed description of the path of House and Senate versions and the final compromise language, see Kenneth J. Burchfiel, *Patent Misuse and Antitrust Reform: "Blessed Be the Tie?,"* 4 HARV. J.L. & TECH. 1, 2 n.9 (1991).

[13] Patent misuse is the impermissible attempt to expand the time or scope of a patent. *See Blonder-Tongue*, 402 U.S. at 343; *see also* FELDMAN, RETHINKING PATENT LAW at 138.

works made abroad. And in *Quanta*, this Court again reversed the Federal Circuit, finding that method patents were exhausted by the sale of an item that substantially embodied the method. This Court's *Quanta* decision unequivocally held that, "[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." 553 U.S. at 638.

These post-*Mallinckrodt* decisions are not only a clear disapproval of the approach taken in *Mallinckrodt*, but also an affirmation of the exhaustion doctrine as articulated by this Court for well over a century: "The first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers." *Univis*, 316 U.S. at 252.

C. *Lexmark*: The Federal Circuit's Battle Against Exhaustion Continues

Despite the recent Supreme Court decisions reaffirming the vitality and importance of the exhaustion doctrine, the Federal Circuit's *Lexmark* decision persists in eroding the doctrine to nothing but a default rule, easily circumvented by the patentee at its pleasure. Under *Lexmark*, a patent holder could unilaterally impose restrictions on the first sale of a patented item, so long as those restrictions are "clearly communicated." It could enforce that restriction, as a matter of

patent law, against any downstream purchaser who violates the restriction.

Most striking, the Federal Circuit's *Lexmark* decision turns the hierarchy of judicial authority on its head. Throughout the 53-page *en banc* opinion, the Federal Circuit lectures this Court – both openly and in a veiled manner – suggesting that the Court does not have authority for its longstanding doctrine. For example, the Federal Circuit patiently explains to this Court that, "Congress has not defined the underlying patent-exhaustion rule. Unless Congress has directed the courts to fashion governing rules in a particular statutory context . . . the justification for lawmaking by the federal courts is greatly diminished." 816 F.3d at 733 (citations omitted).

Perhaps part of the Federal Circuit's disapproval stems from its disagreement with certain policies established by this Court through what the Circuit describes as "court-made law." *Id.* at 743. For example, the Federal Circuit complains that this Court's precedent, which creates patent exhaustion but allows patent holders to place restrictions on those who make products for them, "is an extraordinary doctrinal consequence" and effectively makes no sense. *Id.* at 739; *see id.* at 735 ("there is no sound reason . . . requiring a distinction that gives less control to a practicing-entity patentee that makes and sells its own product than to a non-practicing-entity patentee that licenses others to make and sell the product."); *see id.* at 743 ("There is no good reason that a patentee that makes and sells the articles itself should be denied the ability

that is guaranteed to a non-practicing-entity patentee."). Yet, as the dissent properly notes, "[t]he distinction . . . exists in the Court's precedent, and *it is not for us to decide if it is a sound distinction.*" *Id.* at 782 (Dyk, J., dissenting) (emphasis added). Moreover, as noted above, vertical integration is not a requirement of patent law, and patent law has never mandated that patent holders must both invent and manufacture their own products. This Court's precedents reflect that basic tenet.

The Federal Circuit next attempts to limit this Court's decisions to the specific issues presented in the cases. For example, this Court's *Univis* decision reiterated the broad principle that "[t]he first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers." *Univis*, 316 U.S. at 252 (holding that, after the sale of the lens blank, the patent holder could not exercise further control over the article sold). To avoid applying this principle, the Federal Circuit in *Lexmark* first severely limits the *Univis* holding by stating that, "the most the Court ruled . . . was that a vertical price-control restriction was ineffective to preserve patent rights after sales of articles embodying the patents." 816 F.2d at 749. Next, the Federal Circuit claims that "[w]hile *Univis* is controlling on what it decided on the issues before it, we do not think it appropriate to give broad effect to language in *Univis* . . . to support an otherwise-unjustified conclusion here on a question not faced there." *Id.*; *see also id.* at 737 ("*Quanta* did not involve the issue presented here").

As this Court has counseled, however, a court of appeals must not "confus[e] the factual contours of [a Supreme Court decision] for its unmistakable holding" in an effort to reach a "novel interpretation" of that decision. *Thurston Motor Lines, Inc. v. Jordan K. Rand, Ltd.*, 460 U.S. 533, 534-35 (1983) (per curiam). Indeed, "once the Court has spoken, it is the duty of other courts to respect that understanding of the governing rule of law." *Rivers v. Roadway Express, Inc.*, 511 U.S. 298, 312 (1994). Here, the Court has been speaking for over 150 years on the patent exhaustion doctrine, uniformly affirming and upholding the doctrine to terminate the patent holder's ability to control the use or disposition of the patented article after the initial sale.

By limiting this Court's decisions to the facts of those cases, the Federal Circuit undermines the entire exhaustion doctrine. For example, in quite direct language, the Circuit refuses to accept this Court's own explanation that the exhaustion doctrine is settled. Specifically, the *Lexmark* opinion first quotes this Court's language that, "[i]t is well settled, as already said, that where a patentee makes the patented article, and sells it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase." *Id.* at 748 (quoting *United States v. General Electric Co.*, 272 U.S. 476, 489 (1926)). *Lexmark* then declares, "[w]e read that language to deem 'settled' only what was settled in the cited precedents – a patentee's sales *without restrictions* exhaust patent rights in the item sold." *Id.* (emphasis in original). In other words, the Federal Circuit attempts to say that

while this Court has determined that patent holders can exercise no future control after a sale, it just means patent holders can exercise no future control after a sale – unless they decide to exercise future control. In reaching its decision, the Federal Circuit completely reverses this Court's longstanding doctrine, opening the door for patent holders to avoid the impact of the exhaustion doctrine.

The Federal Circuit also tries to buttress its approach by reading an inordinate amount into a single word from this Court's language – "authorized." The exhaustion doctrine specifies that "[t]he authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights." *Quanta*, 553 U.S. at 638. Similarly, § 271 of the 1952 Patent Act provides that sale or use of a patented article "without authority" constitutes infringement. 35 U.S.C. § 271(a) (1952) ("whoever without authority makes, uses, offers to sell, or sells any patented invention . . . infringes the patent"); *see Lexmark*, 816 F.3d at 734-35. Referencing these precedents, the Federal Circuit reaches the circular conclusion that whenever downstream users act "contrary to the . . . limits on the authority conferred at the time of the original sale, [their actions] remain unauthorized." *See Lexmark*, 816 F.3d at 726; *see also id.* at 739-42 (engaging in extensive discussion of the word "authorized").

The Federal Circuit's interpretation places far more weight on the slender word "authorized" than it could ever bear. Historically, the term "authorized sales" entered the exhaustion doctrine to clarify that a

patent holder need not do its own manufacturing, and that exhaustion will apply only after those "authorized" to handle the manufacturing for the patent holder have sold the item. Specifically, at least as far back as the 1938 case of *General Talking Pictures*, it has been clear that a patent holder need not do its own manufacturing; vertical integration, in which one company must invent, manufacture, and sell, all on its own, is not required under the Patent Act. As a result, exhaustion only applies after those "authorized" to do the manufacturing for the patent holder to have sold the item. *See General Talking Pictures*, 304 U.S. 175. This is the concept embodied in the notion that exhaustion does not apply until an item enters the "channels of trade." *See Motion Pictures Patents*, 243 U.S. at 516. Thus, defining the term "authorized" requires no particular heavy lifting. In modern commerce, the word "authorized" takes on distinct importance, given the problem of rampant knockoff goods. Quite simply, a patent holder should not be judged to have exhausted its patent rights when goods enter the stream of commerce without anyone ever receiving permission from the patent holder.

The Federal Circuit reads *General Talking Pictures* as deciding that a patent holder can maintain its restrictions against downstream purchasers, as long the purchasers know that such restrictions exist. Given the decision's emphasis on the knowledge of the parties, however, *General Talking Pictures* is best understood as early stirrings of the induced infringement

doctrine.[14] The case was a harbinger of the codification of induced infringement in the 1952 Patent Act, with inducement's all-important requirement of knowledge. Importing knowledge issues into patent law's general strict liability framework would seriously distort the doctrines. Thus, to the extent that *General Talking Pictures* engenders confusion, its meaning can best be appreciated in the induced infringement context.

None of this, however, requires the elaborate twists and turns to which the Federal Circuit resorts in using the word "authorized" as part of its latest effort to avoid the exhaustion doctrine. The approach brings to mind this Court's admonishment, in the context of patentable subject matter, that the interpretation of patents should not depend on "the draftsman's art." *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347, 2360 (2014) (citing *Mayo Collaborative Svc. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1294 (2012)). This Court recently echoed that admonishment in the context of patent exhaustion, cautioning against "the danger of allowing such an end-run around exhaustion." *Quanta*, 553 U.S. at 629-30 ("By characterizing their claims as method instead of apparatus claims, or

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[14] *See, e.g.*, DONALD CHISM, CHISM ON PATENTS § 19.04[3][i] (2015) (*General Talking Pictures* "might be explained as an instance of active inducement of infringement and thus reconciled with the first-sale doctrine of *Adams v. Burke*"); Brief for Intellectual Property Professors and American Antitrust Institute as Amici Curiae Supporting Petitioners, *Lexmark Int'l Inc. v. Impression Products, Inc.*, 816 F.3d 721 (Fed. Cir. 2016) 2016 WL 1639989 at *14-15 ("the case is better understood as saying that General Talking Pictures *induced* Transformer Company's infringement, and therefore was indirectly liable.") (emphasis in original).

including a method claim for the machine's patented method of performing its task, a patent drafter could shield practically any patented item from exhaustion."). Clever interpretation of the term, "authorized," should not be allowed to undermine 165 years of this Court's exhaustion doctrine. Nor should it be allowed to open the door for drafting methods that would shield practically any patent holder from the doctrine.

CONCLUSION

The Federal Circuit in *Lexmark* has exceeded its role as a subordinate court by failing to follow the well-settled exhaustion doctrine established by this Court. The doctrine is clear. The initial sale of a patented item "terminates all patent rights in that item" (*Quanta*, 553 U.S. at 625), and that means a patent holder is not permitted under patent law to control the downstream uses of the patented item after the initial sale through any form of restrictions, conditions or other limitations. The Federal Circuit opinion should be reversed.

Respectfully submitted,

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